

CABINET - SUBJECTS FOR CONSIDERATION, 02 DECEMBER 2002 11:00 AM

Not Relevant

103

MADM023/02CS

**Future Approach to ICT Service Arrangements for the
South Australian Government
APPROVED AS AMENDED (NEW
RECOMMENDATIONS)**

All Ministers

Not Relevant

CABINET COVER SHEET

- 1. **TITLE:** Future Approach to ICT Service Arrangements for the South Australian Government

- 2. **MINISTER:**
 - Hon Jay Weatherill MP
Minister for Urban Development and Planning
Minister for Local Government
Minister for Administrative Services
Minister Assisting in Government Enterprises

 - Hon Kevin Foley MP
Deputy Premier
Treasurer
Minister for Industry, Investment and Trade

- 3. **PURPOSE:**

To seek Cabinet endorsement for commencement of Stage 2 of the review of the South Australian (SA) Government's future information and communication technology (ICT) service arrangements as outlined in this submission.

Approval is sought for the proposed governance arrangements, which include appointment of the Treasurer as the Minister responsible for the conduct of the work, delegating day to day carriage of the project to the Minister for Administrative Services and establishment of a special purpose vehicle for the conduct of the remaining work programme, as well as the work plan and additional funding for the work to March 2003.

The outcomes of Stage 2 to March 2003 will include further development of the strategic sourcing framework and preparation of draft requests for proposal/tender (RFPs/RFTs).

- 4. **RESOURCES REQUIRED FOR IMPLEMENTATION:**

A budget amount of \$682,000 for the period November 2002 to March 2003.

The recommendations from Stage 2 to March 2003 will incorporate clarification of resource requirements for later stages of the review.

- 5. **RELATIONSHIP TO GOVERNMENT POLICY:**

The Government's policy statements include a focus upon increased use of ICT in support of cross-agency co-operation and service delivery. The policy includes emphasis on:

 - innovation in the use of ICT;
 - maximising the value of the

- Government's investment in ICT; and supporting the growth and development of South Australia's ICT industries.

6. CONSULTATION:

Extensive cross-government consultation was undertaken during Stage 1 facilitated via Chief Executives and Chief Information Officers.

The recommendations contained in this submission were endorsed by the Chief Executive Steering Committee and presented to the Major Projects and Infrastructure Cabinet Committee.

The Prudential Management Group and Auditor General's Office were briefed and submissions were sought from the Office for Economic Development and IT Council of South Australia.

Consultation leading to development of appropriate impact statements will occur during Stage 2 of the review.

7. FAMILY IMPACT STATEMENT: Refer consultation

8. URGENCY: URGENT

9. RECOMMENDATIONS: It is recommended that Cabinet:

- 4.1 Approve the development of a strategic sourcing framework, as set out in section 3.5 of this submission.
- 4.2 Approve the development of draft Requests for Proposal/Tender consistent with the Strategic Sourcing Framework.
- 4.3 Note the programme of work for Stage 2 of the review, as outlined in attachment 4, to establish future ICT service arrangements for the SA Government.
- 4.4 Approve funding of \$682,000 for the work to March 2003 as set out in section 3.9 of this submission.
- 4.5 Approve the governance arrangements for the work of the project as set out in section 3.7 of this submission.

- 4.6 Note that a further submission to Cabinet is proposed seeking approval for implementation of the strategic sourcing framework and of the proposed draft Requests for Proposal/Tender documentation in March 2003. The submission will also address resourcing for work beyond March 2003.
- 4.7 Note that further funding will be required for later stages of the project, dependent upon the outcomes and decisions of the next stage of the project. These will be the subject of a further submission to Cabinet.



Hon Jay Weatherill MP
Minister for Urban Development
and Planning
Minister for Local Government
Minister for Administrative
Services
Minister Assisting in Government
Enterprises

Date: 20/10/02



Hon Kevin Foley MP
Deputy Premier
Treasurer
Minister for Industry, Investment and
Trade

Date: 15/11/02

TO: PREMIER FOR CABINET

RE: FUTURE APPROACH TO ICT SERVICE ARRANGEMENTS FOR THE SOUTH AUSTRALIAN GOVERNMENT

1. PROPOSAL

It is proposed that Cabinet approve commencement of Stage 2 of the review of the SA Government's future ICT service arrangements as outlined in this submission, in particular further development of a strategic sourcing framework and draft requests for proposal/tender (RFPs/RFTs) as set out in the proposed work plan, together with the associated additional funding. The proposed governance arrangements include continued oversight of the work by the Major Projects and Infrastructure Cabinet Committee, appointment of the Treasurer as the Minister responsible for the conduct of the work, delegating day to day carriage of the project to the Minister for Administrative Services with support from the Chief Executive Steering Committee, and establishment of a special purpose vehicle for the conduct of the remaining work programme.

2. BACKGROUND

2.1 The review of the Government's information and communication technology (ICT) service arrangements

2.1.1 In June 2002, Cabinet considered and approved a submission regarding a review of the full range of existing information and communication technology (ICT) service arrangements for the South Australian (SA) Government. This submission established the terms of reference and governance arrangements for Stage 1 of the review.

2.1.2 Stage 1 was to make recommendations regarding:

- how ICT will be used to effectively support SA Government operations;
- how ICT services should be provided into the future;
- how the principles of competition can be applied during the establishment and throughout the life of any contractual arrangements; and
- appropriate governance for planning and strategy development, procurement, transition and ongoing management of service arrangements.

2.2 Inter-relationship of key initiatives

2.2.1 The Government's future ICT service arrangements should be guided by the following:

- ICT strategic plan – the strategic plan for the public sector (ICS Directions, released in 2000) is currently being reviewed in consultation with agencies and will be submitted to Cabinet for consideration. The ICT Strategy will provide a summary of the philosophy and direction of the utilisation of ICT within the SA Government.
- ICT policies and standards – Cabinet approved clear governance arrangements for SA Government's ICT policies and standards in August 2002. An ICT policy and standards framework will guide the delivery of ICT services.

2.3 The scope of current ICT service arrangements

2.3.1 The ICT services used by agencies to support their operation and underpin government service delivery are delivered currently through a mixture of internal-to-government and outsourced ICT service arrangements.

2.3.2 The SA Government currently spends in the order of \$90 million (excluding GST) annually with EDS. This represents approximately half the SA Government's total expenditure on outsourced ICT services currently contracted at the whole-of-government level (set out in attachment 1).

2.3.3 The remaining outsourced ICT services are purchased through agreements with a number of vendors. The range of vendors with which the SA Government has significant ICT service agreements includes Telstra (fixed telephony), Optus (mobile phone services), Agile/Internode (internet services), Microsoft (desktop software licensing) and a range of suppliers of personal computers (as set out in attachment 1).

2.4 The timeline for completing the review

2.4.1 The June 2002 submission forecast the need for decisions to be made during 2002 regarding the future delivery of the Information Technology Services and State Economic Development Agreement (ITSSSED) component of the SA Government's ICT services and infrastructure in particular. Under the provisions of the ITSSSED Agreement (clause 6.2.1), the State is obliged to advise EDS before the end of the eighth year of the agreement (i.e. on or before 5 July 2004) whether it intends to renew, extend or replace ITSSSED.

2.4.2 It should be noted that a number of the SA Government's other whole-of-government service arrangements (as set out in attachment 1) fall due for extension, or expire, in an earlier timeframe than the ITSSSED Agreement.

2.5 Stage 1 – Investigation and across-government consultation

2.5.1 Extensive across-government consultation was undertaken during Stage 1 in development of a recommended strategy going forward. Engagement with stakeholders across the public sector was facilitated via Chief Executives and Chief Information Officers in particular.

2.5.2 Interviews were conducted with a wide range of public and private sector organisations across Australia and overseas. Organisations interviewed included interstate counterparts, Federal Government agencies, overseas public sector organisations and large private sector companies (some international). In addition, research was undertaken into trends in sourcing of ICT services.

2.5.3 Submissions were sought from the Economic Development Board regarding incorporation of economic outcomes in consideration of ICT services arrangements and the Department of Treasury and Finance regarding opportunities presented by public private partnerships (PPP). The IT Council of South Australia, the representative body for fourteen South Australian ICT vendors, was also invited to provide a written submission.

3 DISCUSSION

3.1 The importance of ICT in the government context

3.1.1 The importance of a cohesive approach to the replacement and ongoing management of SA Government's ICT service arrangements is heightened by:

- the fact that the SA Government's ICT infrastructure underpins government operations and its ability to deliver services to South Australians;
- the complexity of the Government's ICT infrastructure and related services;
- the magnitude of the Government's expenditure on ICT services (refer paragraph 2.3); and
- the potential impact of the Government's ICT service arrangements on the local ICT sector.

3.2 Meeting the Government's service requirements

3.2.1 Over the last few years, government requirements, particularly in the area of service delivery, have changed significantly. One aspect of the change relates to the way government operates, transacts its business and maintains records, particularly with the increased adoption of internet technologies. Another aspect of change for government relates to the way citizens and businesses wish to interact with government and access government services.

3.2.2 In addition to changes in the manner in which the Government employs ICT and in the services supported by ICT, there continues to be significant change in:

- the technology itself, both in terms of maturity of various technologies and what the technologies can be employed to achieve; and
- the ICT market place, in the way vendors wish to provide ICT services, the range of available services and the technologies used to deliver those services.

3.2.3 It is anticipated that the Government's service delivery requirement will continue to change into the future. The rate of change will significantly impact decisions regarding ICT service arrangements. Electronic transactions with, and across, government are expected to increase in number and value into the future.

3.2.4 The June 2002 submission indicated that the SA Government would not enter into another arrangement similar to the existing ITSSSED agreement. This has been reinforced by the messages set out in paragraphs 3.2.1 and 3.2.2, which, increasingly, invalidate the structure and focus of the current ITSSSED contract.

3.3 Analysis of the current SA Government situation

3.3.1 Flowing from the analysis of the current situation and review of the current ITSSSED agreement, consultation across government and investigation undertaken during Stage 1 of the review, the following conclusions have been drawn:

- The SA Government's current ICT environment is one where agencies deal with multiple vendors for a range of services. ICT services are delivered under multiple agreements.
- The current arrangements lack a focus on achieving the SA Government's policy and strategic directions and do not provide sufficient incentive (or imprimatur) for collaboration across government to deliver increased efficiency and effectiveness.

- There are elements of the current arrangements that are quite appropriate going forward, but these elements should exist within a strategic framework for decisions regarding ICT service arrangements.

3.3.2 The SA Government will need to collaborate at both the whole-of-government and agency level to achieve the minimum critical mass necessary to generate both scale economies and interest from external service providers.

3.4 Aspects of future ICT service arrangements

3.4.1 Analysis of input received during the across-government consultation, discussion with peer organisations and research and investigation of worldwide trends, revealed the following key messages regarding future ICT service arrangements:

- No major scope change, either of outsourcing or insourcing – There is a trade-off between the scope of services contemplated by any future ICT service arrangements and the cost and complexity of managing the range of relationships with providers. Consultation and research to date reinforces the point that the scope of ICT services should not be expanded beyond those already provided under existing outsourcing arrangements. In general, agencies also advise that they do not plan, and would not seek, to insource currently outsourced ICT services.
- Focus on **Service** – The primary focus should be on achievement of effective ICT service arrangements prior to consideration of the economic development opportunities. In the SA Government context, this relates to achieving a more appropriate fit to agency needs.
- Transparency – Contractual arrangements and service pricing should be open and transparent to enable value for money comparisons to be possible. The overheads of central management and economic development (if required / offered) should be separately identifiable.
- Choice – There should be choice available to ensure a match between the agency service requirement and the ICT service arrangements.
- Flexibility – **Service** levels, price and possibly contract term should be capable of being tailored to particular service requirements.

- Competition – It is essential to sustain competitive tension during the course of any ICT service arrangements so that value for money and supplier responsiveness are maintained.
- Intelligent and Informed customer – Certain roles, such as strategy and relationship management, and skills in areas like security and ICT architecture design and contract management, need to be retained within government.
- Responsiveness – Particularly where the ICT service is critical to operation and/or complex (perhaps involving significant development and integration with existing systems), open and direct relationships with providers would facilitate more effective outcomes for agencies.
- Innovation – Innovation in service delivery is essential and should be internally managed, supported by separate sourcing arrangements or specific opportunities for collaboration with the local ICT industry.
- Balance between whole-of-government considerations and agency requirements – The need for ICT service arrangements to have regard to the level of government at which the benefit is maximised, whether at the whole-of-government or agency level.
- Communication and consultation – Both the research to date and the detailed consultation with agencies has highlighted the need for comprehensive consultation and communication throughout the processes of development, implementation and operation of future ICT service arrangements.

3.5 A strategic approach to future ICT service arrangements

3.5.1 A strategic and structured approach to future ICT service arrangements, which addresses the aspects set out in section 3.4 above, together with appropriate governance across the SA Government, will ensure:

- best benefit from the deployment of ICT in support of public policy and agency service delivery responsibilities;
- efficiency and effectiveness outcomes for government as a whole; and
- an approach to the delivery of ICT services which balances value for money and risk management considerations.

3.5.2 Further, such an approach will:

- recognise that the context for the SA Government's future ICT service arrangements will be subject to continual change;
- capitalise on opportunities to achieve benefit for SA Government as a whole through a coordinated approach to ICT services, particularly in terms of leveraging ICT requirements to achieve economies of scale; and
- balance achievement of whole-of-government objectives with the agencies' need for ICT services to support fulfilment of particular service obligations.

3.5.3 In support of this approach, a strategic sourcing framework will be developed as the basis for the SA Government's future ICT service arrangements. The framework will support decisions regarding:

- whether the efficiency and effectiveness outcomes of ICT service arrangements are best addressed at the whole-of-government or agency level;
- the allocation of responsibility and accountability for ICT service arrangements according to where the efficiency and effectiveness outcome brings most value to the Government; and
- the particular sourcing arrangements for ICT services, for example use of a single supplier, multiple suppliers, or panel arrangements.

3.5.4 The structure of the proposed strategic sourcing framework would incorporate three segments as outlined below. More detail regarding the model proposed is provided in attachment 2.

3.5.4.1 Whole of Government Co-ordinated

- Efficiency Segment – ICT services sourced in a co-ordinated, whole-of-government manner to ensure best value for money.
- Effectiveness Segment – ICT services sourced in a co-ordinated, whole-of-government manner to ensure best strategic effectiveness for the State.

3.5.4.2 Agency Co-ordinated and Managed Segment

- ICT services unique to agencies that should be sourced directly to ensure best fit with regard to agency efficiency and effectiveness factors.

- 3.5.5 ICT Services that lie within the whole of government efficiency and effectiveness segments would be sourced in a co-ordinated manner to achieve maximum benefits for government. In some instances, while these sourcing arrangements will be initially co-ordinated and established centrally, the ICT service would be managed at the agency or local level. Dependent upon the service, agencies would assume responsibility for managing the service provision with the supplier at different points in the supply chain (refer attachment 2, table 1).
 - 3.5.6 Adoption of a selective sourcing model as a formal strategy for meeting the SA Government's future ICT service requirements has been assessed as the approach with the greatest capacity to facilitate achievement of the Cabinet approved objectives for the SA Government's ICT services. A selective sourcing approach facilitates selecting the supplier best able to meet the defined objectives and requirements for particular ICT services.
 - 3.5.7 The draft documents for any RFPs/RFTs would set out the SA Government's particular requirements for ICT service arrangements consistent with the proposed strategic sourcing framework.
- 3.6 Establishing the new ICT service arrangements
- 3.6.1 Stage 2 of the review, to March 2003, will encompass the work necessary to finalise the detailed strategic sourcing framework and draft RFPs/RFTs for future ICT service arrangements as described in section 3.5.
 - 3.6.2 Ongoing across-government consultation will be required to ensure continued alignment between this detailed framework and agency service requirements and to maintain high levels of agency buy-in.
 - 3.6.3 Further, Stage 2 would see the State issuing RFPs/RFTs in June 2003, following Cabinet approval, seeking industry responses to the State's specific requirements for ICT service arrangements.
 - 3.6.4 Following Cabinet endorsement of the proposed strategic sourcing framework and approach to market, planning for transition will commence to ensure business continuity and a stable service environment during establishment of the new arrangements. It is recognised there will be a need to have in place arrangements which provide for the continued delivery of the Government's ICT services during the transition period.
 - 3.6.5 It is anticipated that the timeframe required to establish the new arrangements will be two years.

3.7 Governance

3.7.1 The following governance arrangements are proposed for the next stage of the review:

3.7.1.1 The Major Projects and Infrastructure Cabinet Committee continue its oversight of the work.

3.7.1.2 The Treasurer be appointed as the Minister responsible for the conduct of the work, delegating day to day carriage of the project to the Minister for Administrative Services.

3.7.1.3 The Steering Committee of senior executives support the Minister for Administrative Services, the membership of the Steering Committee to comprise:

- Chief Executives from:
 - Department of Treasury and Finance (the Under Treasurer to chair);
 - Department of Premier and Cabinet;
 - Department for Administrative and Information Services (DAIS);
 - Department of Human Services; and
- a senior officer fulfilling the role of Chief Commercial Counsel.

3.7.1.4 An "independent project team" or "special purpose vehicle" (SPV) be established to be responsible for the conduct of the remaining work programme for the project. The SPV would be a separate business unit within DAIS reporting directly to the Treasurer through the Minister for Administrative Services.

3.7.1.5 The unit would be responsible to the Chief Executive Steering Committee for the establishment of new ICT service arrangements for SA Government as approved by Cabinet. In conduct of this work, the unit would:

- implement the programme of work approved by Cabinet to provide for future ICT service arrangements for the SA Government;
- ensure that any new ICT service arrangements align with the stated objectives endorsed by Cabinet (refer attachment 2);
- maintain ongoing communication and consultation with stakeholders;

- manage any approach to the market in seeking proposals for ICT service arrangements and establish any new arrangements as approved by Cabinet; and
- establish the framework for transition to any new ICT service arrangements.

3.7.1.6 The Chief Executive Steering Committee would be responsible for approving the work plan of the unit and for approving all major reports, papers and submissions to go to the Minister for Administrative Services and/or the Treasurer.

3.8 Work plan and timelines

3.8.1 Attachment 4 details the work plan and timelines leading to establishment of the new ICT service arrangements.

3.8.2 It is anticipated that a further submission to Cabinet on the progress of the initiative and seeking approval for implementation of the strategic sourcing framework and of the proposed draft RFPs/RFTs documentation will occur in March 2003. The submission will also address the resourcing and governance arrangements for work beyond March 2003.

3.9 Resourcing

3.9.1 The following cost estimates are made for the next stage of the project. Further detail is included at attachment 5.

Estimated additional funding requirements for 2002 / 2003
\$000's

Item	Stage 1 July to October 2002	Stage 2 November 2002 to March 2003	Stage 2 April 2003 to June 2003	Total Expenditure for 2002 /2003
Salaries and on costs	231	374	249	854
Goods and services	194	308	264	766
Total	425	682	513	1,620

The contingency amount of \$425,000, which was approved by Cabinet in June 2002, has been expended during Stage1 of the review. The estimated cost for work to June 2003 is a further \$1.195 million. This submission seeks additional funds of \$682,000 for the work to March 2003.

3.10 Risk Management

- 3.10.1 The review process, including the associated research, consultation and strategy development, the governance arrangements and work plan proposed in this submission, will contribute to minimisation of the risks associated with procurement and establishment of large-scale ICT service arrangements.
- 3.10.2 An updated risk management and mitigation plan will be incorporated into the project management documentation for Stage 2.
- 3.10.3 Prior to any approach to the market, clear ministerial responsibility would assist timely decision-making and ensure management of the risks associated with the procurement.

3.11 Consultation

- 3.11.1 Extensive across-government consultation was undertaken during Stage 1. Engagement with all portfolios across the public sector was facilitated via Chief Executives and Chief Information Officers in particular.
- 3.11.2 In accord with the governance arrangements for Stage 1, the recommendations contained in this submission were endorsed by the Chief Executive Steering Committee and presented to the Major Projects and Infrastructure Cabinet Committee.
- 3.11.3 The Prudential Management Group and Auditor General's Office were briefed.
- 3.11.4 The written submission received from the IT Council of South Australia included the following suggested considerations:
 - Development of processes for interaction between government and industry;
 - Implementation of strategies to minimise the cost to local small to medium enterprises (SMEs) of responding to government tenders, possibly including pre-qualification of companies;
 - Deployment of open "whole-of-government" business solutions, thus maximising the opportunities for all SA IT industry companies to bid for work;
 - Encouragement of the innovative, exemplary use of ICT in achieving business goals (applicable Internationally) through collaboration with industry, while protecting industries' contribution of intellectual property.

These considerations are being included in the development of the strategic sourcing framework proposed in this submission.

4 RECOMMENDATION

It is recommended that Cabinet:

- 4.1 Approve the development of a strategic sourcing framework, as set out in section 3.5 of this submission.
- 4.2 Approve the development of draft Requests for Proposal/Tender consistent with the Strategic Sourcing Framework.
- 4.3 Note the programme of work for Stage 2 of the review, as outlined in attachment 4, to establish future ICT service arrangements for the SA Government.
- 4.4 Approve additional funding of \$682,000 for the commencement of Stage 2. This additional \$682,000 will be transferred to DAIS on the basis of a quarterly acquittal of actual expenditure incurred as per the established process for Stage 1 funding.
- 4.5 Approve the governance arrangements for the work of the project as set out in section 3.7 of this submission.
- 4.6 Note that a further submission to Cabinet is proposed seeking approval for implementation of the strategic sourcing framework and of the proposed draft Requests for Proposal/Tender documentation in March 2003. The submission will also address resourcing for work beyond March 2003.
- 4.7 Note that further funding will be required for later stages of the project, dependent upon the outcomes and decisions of the next stage of the project. These will be the subject of a further submission to Cabinet.

Hon Jay Weatherill MP
 Minister for Urban Development and Planning
 Minister for Local Government
 Minister for Administrative Services
 Minister Assisting in Government Enterprises

Date: 2/12/02

Hon Kevin Foley MP
 Deputy Premier
 Treasurer
 Minister for Industry, Investment and Trade

- 2 DEC 2002

Date: 2/12/02

Current South Australian Government ICT Services Contracts

(Major whole-of-government contracts managed by Government ICS, DAIS (1))

CONTRACT	TERM	END DATE	TOTAL CONTRACT VALUE \$M	ANNUAL PAYMENTS (4) \$M
ITSSSED EDS	9 years	5 Jul 2005	750 (3)	90.0
TSA Telstra	3 years +1+1	23 Jan 2005	90	30.0
GRN Network Telstra	7 years	26 May 2006	70	10.0
GRN Voice Radio Terminal Equipment Motorola	6 Years	24 May 2006	30	
Mobile Telephone - Optus	18 months +1+1	13 January 2002 Extended to 13 January 2003	11.6	5.0
ISP Agile	1 year +1	Oct 2002	1.3	1.3
Desktop (2) Microsoft Office (Select 5)	2 years	31 Jan 2004	10.0-12.0	5.0 (excluding DETE)
HRMS Frontier (5)	5 years + (extension option)	18 Jan 2007	3.5	0.8
AMD Panel Aspect DMR EDS	4 years 6 months	Expired 2 Dec 2001	5.9	
PC Panel	2 years + 1 year extension option	3 rd Qtr 2002		\$37M

Notes:

1. Figures current at August 2002.
2. Purchases under the PC Panel contract for computing hardware (managed by DAIS Contract Services) for the calendar year 2001 represents an estimated third of the PC/Laptop fleet for the State Government.
3. Excludes ETSA utilities as from July 1999 following privatisation.
Annual payments exclude capital/project costs for GRN (\$106M), GRN-Voice Radio Terminal Equipment Motorola (\$30M) and HRMS (\$1.8M) plus \$2.9M of internal Government project costs.
4. For 2000-01 financial year
5. The HRMS Frontier annual costs excludes the Concept overlap payments and central administration of \$1.6M.

STRATEGIC SOURCING FRAMEWORK

INTRODUCTION

This paper outlines the basis of a strategic sourcing framework that will direct the process of establishing, and then managing, the SA Government's information and communication technology (ICT) service arrangements. The proposed strategic sourcing framework, when fully developed, will set out the rules and timelines for decisions regarding ICT services arrangements beyond the expiry of the current ITSSSED (EDS) contract for IT infrastructure services, as well as other major and related ICT services contracts that progressively expire from 2003 through to 2006.

OBJECTIVES

The objectives established for future ICT service arrangements, as previously endorsed by Cabinet in June 2002, are as follows:

- Ensure ongoing provision of an effective ICT infrastructure for the SA Government.
- Enhance the Government's ability to be responsive to the community of South Australia.
- Allow the Government to take the best advantage of innovation and technological enhancements.
- Ensure demonstrable benefit and value for the SA Government and its agencies.
- Sensitivity to economic development impacts.

Key Elements of Future ICT Service Arrangements

The analysis of input received during consultation across the SA government, discussions with peer organisations and independent research indicates the following key elements for future ICT service arrangements. (These points summarise those described in the Cabinet submission, section 3.4):

- No major scope change either of outsourcing or current insourced services.
- Focus on ICT service delivery prior to consideration of economic development opportunities.
- Transparent contractual and pricing arrangements that allow value for money considerations.
- Provision for choice of service providers to match service requirements.
- Flexibility in service and pricing arrangements to meet particular service requirements.
- Competitive tension to sustain service provider responsiveness and value for money.
- Ensuring that the SA Government is an intelligent and informed customer able to ensure appropriate delivery of services.
- An appropriate balance between whole-of-government considerations and agency requirements.

SOURCING MODELS

The research work to date has identified a range of sourcing models which include:

- **Single provider** – single strategic contract with a single provider for a range of ICT services.
- **Selective sourcing** – a number of strategic contacts with service providers whose core competencies match the functions that have been selected for outsourcing.
- **Prime contractor** – one prime service provider to deliver services and to act as an agent or intermediary to deliver a range of other services not within the prime contractor's core competencies.
- **Best of breed consortia** – one relationship with prime contractor but separate contracts with consortia members.
- **In-sourcing** – the provision of ICT services by an in-house department.
- **Joint venture** – between the sourcing organisation and a service provider.
- **Branded services company** – the corporatisation or commercialisation of in-house ICT services and development of new competencies.

An assessment of the known sourcing models and their capacity to facilitate achievement of the Cabinet approved objectives for the SA Government's future ICT service arrangements has been undertaken.

The assessment shows that adoption of the selective sourcing model as a formal strategy for sourcing the SA Government's ICT service requirements has the greatest potential for achieving the stated objectives.

Scope of ICT Services

The major contracts under which the SA Government currently procures ICT services and that need to be addressed by a selective sourcing model are listed at attachment 1 of this submission.

Structure of the Strategic Sourcing Framework

The Government's ICT service needs can be grouped into 3 segments, whole of government efficiency; whole of government effectiveness; and agency specific.

The segmentation comprehends that some ICT services are common across agencies and government is obligated to source these services in the most economical manner. Further, other ICT services, would be better sourced centrally to ensure government-wide effectiveness. The third segment of services is more directly linked to the core business of each agency.

The agency segment is best co-ordinated and managed at the agency or local level. Where there is a potential benefit, agencies may collaborate in sourcing ICT services within this segment.

ICT Services that lie within the whole of government efficiency and effectiveness segments would be sourced in a co-ordinated manner to achieve maximum benefit for government. In some instances, while these sourcing arrangements will be initially co-ordinated and established centrally, the ICT service would be managed at the agency or local level. Dependent upon the service, agencies would assume responsibility for managing the service provision with the supplier at different points in the supply chain. Some potential examples are provided over page in table 1.

Although both are to be centrally co-ordinated, the efficiency and effectiveness segments are recognised as separate as the business drivers fundamentally differ and these differences will impact on ICT sourcing arrangements.

Whole of Government Co-ordinated

Efficiency Segment – ICT services sourced in a co-ordinated, whole-of-government manner to ensure best value for money.

Government as an enterprise sources certain ICT services from the market that are common, commoditised or predictable and mature in their technology or service offering. Often the volumes required are predictable with high levels of accuracy.

Government has a responsibility to, where practicable, organise itself to procure these categories of goods or services in the most efficient manner possible. An across-government approach enables scale economies to be realised. Cost or value for money (within acceptable service and quality standards) is the predominant key performance indicator in this segment.

Potential services include desktop hardware, common software and peripherals; mainframe, telecommunications (fixed and mobile); web hosting; and local area network (LAN) services.

Effectiveness Segment - ICT services sourced in a co-ordinated, whole-of-government manner to ensure best strategic effectiveness for the State.

Government as an enterprise needs to manage certain ICT services at a whole-of-government level to ensure government can operate effectively as an integrated entity. Cost, while always a consideration, is not the primary criterion in such instances. Factors such as risk, security, and government policy compliance may be the first priority.

To ensure the best outcomes for government, and its clients, these services need to be managed at a coordinated, whole-of-government level.

Potential services include core wide area network (WAN) design and management; messaging; security; ICT policy and standards; and financial systems.

Agency Segment - ICT services unique to agencies that should be sourced directly to ensure best fit with regard to agency efficiency and effectiveness factors.

Agencies source ICT services from a range of providers to meet their business needs. This occurs to ensure best fit with regard to agency efficiency and effectiveness factors. ICT services may be unique to each agency (often by way of specific business applications) or are common to every agency yet require high levels of customisation to ensure agency relevance (eg desktop support).

Potential services include specific business applications (eg tax collection; patient information; student management and learning management); and desktop support.

Table No 1

This table illustrates potential future ICT service arrangements and possible responsibility and accountability points.

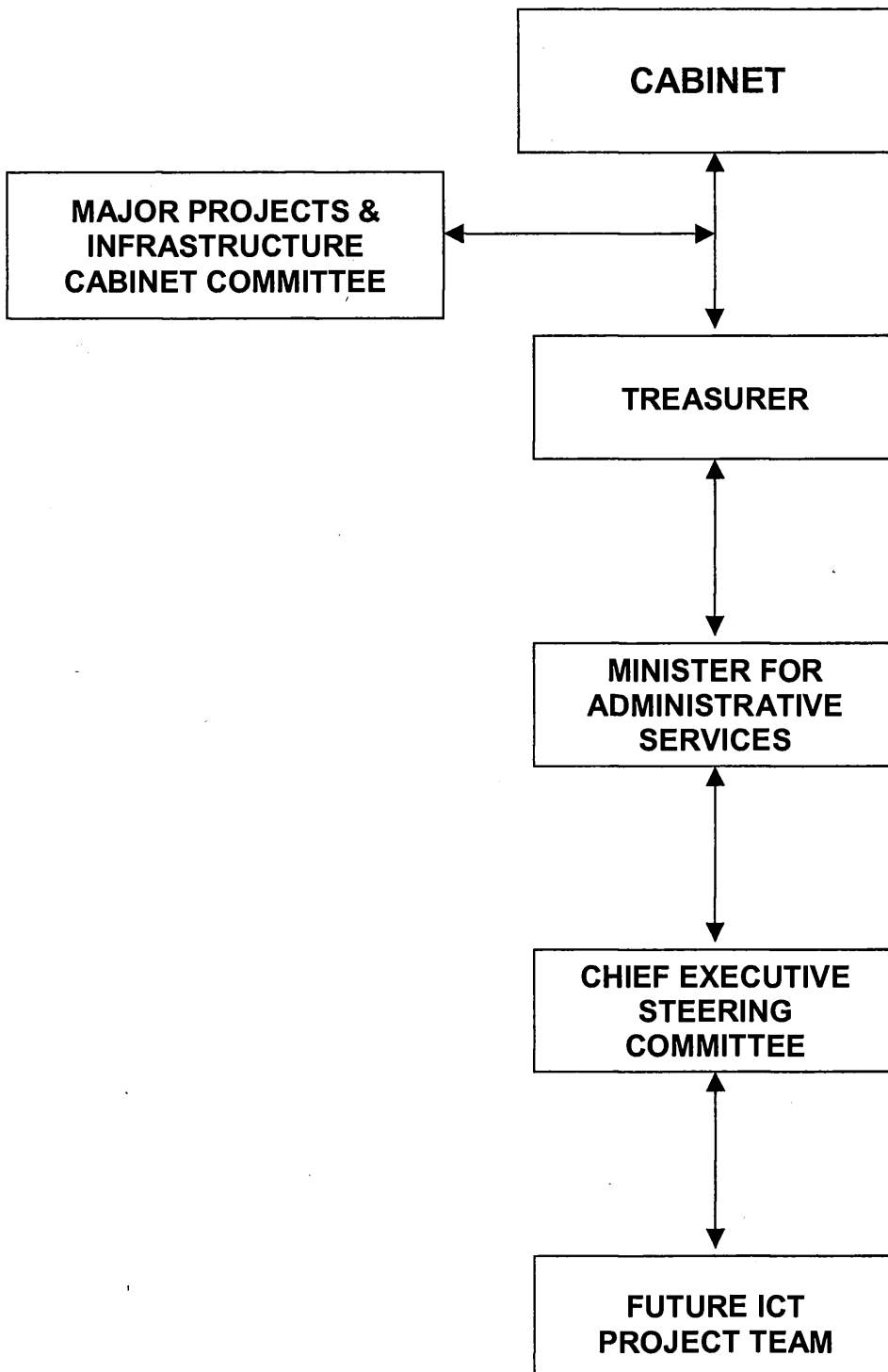
WHOLE OF GOVERNMENT	AGENCY
Desktop Hardware, Common Software and Peripherals	
Centrally established, pre-qualified panel of suppliers	Agencies would select supplier, acquire and manage service levels direct
Local Area Network (LAN) Services	
Centrally established, pre-qualified panel of service providers	Agencies would select service provider, contract and manage services levels direct
Mainframe Services	
Centrally established and managed single provider contract	Agencies would sub-contract for services under whole-of-government agreement
Security	
Centrally established and managed Policy and Standards framework	Agencies would implement and manage locally to satisfy unique requirements congruent with published whole-of-government framework

Governance and Contract Framework

As a consequence of the above assessments, appropriate governance and contract arrangements should be established to facilitate achievement of SA government objectives and successful management of the proposed selective sourcing model.

FUTURE ICT SERVICE ARRANGEMENTS PROJECT-
STAGE 2

GOVERNANCE ARRANGEMENTS



Ministerial responsibility

Ministerial responsibility for the conduct of the work of the review of future ICT service arrangements for the South Australian Government rests with the Treasurer, day-to-day carriage of the project delegated to the Minister for Administrative Services with support from the Chief Executive Steering Committee.

Cabinet Committee

The Major Projects and Infrastructure Cabinet Committee has responsibility to Cabinet for the oversight of the Future ICT Service Arrangements initiative.

The Cabinet Committee's role is to:

- be responsible to Cabinet for overall strategic direction of the initiative, consideration and endorsement of the appropriate information and communication technology (ICT) strategies, associated implementation plans and funding/resource matters; and
- receive regular reports on the progress of the work and be kept informed of key developments.

Chief Executive Steering Committee

The Steering Committee is responsible for overall guidance of the project and provides advice to the Minister for Administrative Services on the recommended strategies.

The Steering Committee's role is to:

- provide senior level sponsorship of the project within SA Government;
- sponsor the provision of the required resources for the project;
- assist in the resolution of conflicts within the project and/or negotiation of solutions to problems that arise between the project and external bodies; and
- champion the outcomes through to final approval.

WORK PLAN AND TIMEFRAMES

ACTION / ACTIVITY	TARGET DATE
Submission to Cabinet seeking approval of strategy, interim resourcing and governance arrangements.	November 2002
Stage 2 Initiation and Planning	November 2002 to March 2003
Further development of strategic sourcing framework and draft RFPs/RFTs documentation, together with resourcing and governance arrangements for the work beyond March 2003.	December 2002 to March 2003
Incorporate input from the ICT Strategic Plan.	January 2003
Consult with agencies regarding the draft Strategic Sourcing Framework.	February 2003
Develop Evaluation Framework for RFPs/RFTs.	February 2003
Submission to Cabinet regarding: - strategic sourcing framework - draft documentation for RFPs/RFTs - governance and resourcing arrangements.	March 2003
Stage 2 – Market Approach, Evaluation and Negotiation <i>(Indicative timeframes dependant on outcome of Cabinet submission)</i>	April 2003 to September 2004
Commence development of detailed transition strategy and action plan.	April 2003
Commence briefings to market place.	April 2003
Submission to Cabinet seeking approval for release of RFPs/RFTs.	May 2003
Issue RFPs/RFTs to market place.	June 2003
Receive responses to RFPs/RFTs and commence evaluation.	September 2003
Finalise evaluation of RFPs/RFTs.	December 2003
Submission to Cabinet incorporating recommendations regarding RFP/RFT evaluation.	February 2004
Commence negotiation with successful tenderers.	March 2004
Advise EDS regarding contract renewal, extension or replacement.	June 2004
Complete contract negotiations.	September 2004
Stage 3 – Transition to new ICT service arrangements	June 2004 to June 2005

STAGE 2 RESOURCES

As advised in the June 2002 Cabinet submission, specific funding will be needed for the work associated with the development and implementation of the replacement strategy.

Stage 1

The work done to date has been achieved through a combination of reallocation of priorities within Department for Administrative and Information Services (DAIS), as an extension of across-government role of Government Information and Communication Services (Government ICS) in relation to ICT services and a reallocation by Treasury and Finance, together with a contingency provision by Treasury and Finance of \$425,000 to fund a dedicated team.

Given the timelines necessitated by the contractual provisions of ITSSSED, a dedicated team was allocated to the task as a full time resource during Stage 1. This is in concert with the co-management arrangements approved by Cabinet in June 2002.

The projected additional cost for the 4 months to October 2002 for the development of the initial report and Cabinet submission is within the \$425,000 provision.

Stage 2

The special purpose vehicle (SPV) proposed to be responsible for the conduct of the remaining work program (Stage 2) would be a separate business unit within DAIS reporting to the Treasurer through the Minister for Administrative Services.

It is assumed that the SPV would:

- utilise the existing administrative/ corporate services and infrastructure of the portfolio;
- second expertise and resources from DAIS, DTF, CSO and agencies;
- engage specialist contractors and consultants as required;
- continue the inter-relationship with existing SA Government ICT Strategy, Policy and Standards and contract groups.

On the basis of the work done to date, it is estimated that a further provision of \$682,000 will be required to undertake the further development work required and provide for a submission to Cabinet in March 2003 addressing the following:

- Strategic Sourcing Framework
- Draft RFTs documentation
- Governance and resourcing arrangements beyond March 2003.

Only additional expenses incurred in the conduct of the project will be debited to the initiative.

The estimated costs are summarised below:

Estimated additional funding requirements for 2002/03
\$000's

Item	Stage 1 July to October 2002	Stage 2 November 2002 to March 2003	Stage 2 April 2003 to June 2003	Total Expenditure for 2002/03
Expenditure				
Salaries and on costs	231	374	249	854
Goods and services	194	308	264	766
<i>comprising</i>				
• <i>Equipment fees and charges</i>	28	35	21	84
• <i>Accommodation</i>	10	13	7	30
• <i>Administration expenses</i>	28	35	21	84
• <i>Travel & related expenses</i>	20	25	15	60
• <i>Specialist contractors, consultants and research</i>	108	200	200	508
Total	425	682	513	1,620
Staff FTE's	7.0	10.0	12.0	

Note:

1. The salary and wages cost estimates assume 7 FTE's for the four months to October 2002. Between October 2002 and March 2003, the FTE figure has been increased to 10 to resource the additional workload proposed through this submission. From April to June 2003, the FTE figure has been increased to 12 to provide further assistance with the work following the publication of RFPs/RFTs. The above figures reflect new salary rates effective from October 2002
2. The specialist contractors, consultants and research are anticipated to be required in the areas of procurement, commercial, legal and financial analysis. There may be a capacity to resource some of these from within the SA Government's public sector.
3. The above figures assume that the reallocation of resources from within DAIS – Government ICS of \$38,000 (3 FTE's comprising direct contributions from a range of people) per month continues to the completion of stage 2.
4. The estimated additional cost for the initiative in 2003/4 and 2004/5 is projected to be of the order of \$3.6 million. This estimate will be impacted by Cabinet's decision regarding the strategy that is the subject of this and further submissions and will necessarily require substantial review in the course of the initiative.